

SECTION VII – SAMPLE ON-SITE AUDIT

The following area is a sample of what to expect for a CTCAC inspection, from the preliminary paperwork needed through the completion of the inspection.

Part 700 Preliminary Requirements

- A. **Letter of Notification** – Approximately three weeks to a month before a CTCAC Audit, the owner of the property and the management company contact on file will receive a letter stating the time and date of the inspection. It will also list four items that need to be returned to the analyst by a specific due date before the inspection.
- B. **Project Status Report (PSR)** – This is a form that must be downloaded off of the CTCAC website at <http://www.treasurer.ca.gov/ctcac/compliance.asp> . It must be filled out completely and e-mailed to the analyst who will be doing the inspection. This is only form CTCAC requires to be in a specific format, as the completed PSR received via e-mail will be downloaded into a database from which all inspection information will be produced. Therefore, the PSR form that is submitted must be the most current as available on the website and may not have any additional cells, data, or worksheets added into it. If there is a problem with the submitted PSR, the analyst in charge of the inspection may contact the owner to have the PSR re-submitted in the correct format.

Mixed use properties should not include market-rate tenants on the PSR that is submitted. It is for LIHTC units only. However, a separate listing showing units containing the market rate units per building should be submitted.

- C. **Utility Allowance** – A copy of the current Utility Allowance used must be submitted prior to the inspection. The amounts used should be circled and added at the bottom of the sheet. The bedroom size and amount used should be easily readable.
- D. **Rent Roll** – A copy of the current rent roll for the entire property needs to be submitted prior to the inspection. If the property to be inspected is a mixed use property, please label the units that are market rate.
- E. **Copy of Inspection Notice** – please submit a copy of the letter used to notify tenants of the upcoming inspection.
- F. **Failure to respond to preliminary requirements** – If the owner fails to submit the preliminary documents by the time requested, then the following may occur:
1. A CTCAC analyst may contact the owner via telephone or e-mail to remind them of the missing documentation and give a new deadline
 2. A CTCAC analyst may contact the management agency contact on file via telephone or e-mail to remind them of the missing documentation and give a new deadline

If repeated attempts have failed to produce the required documentation in a timely manner by all verbal and written due dates, then the analyst may cancel the inspection and CTCAC may issue an uncorrected Form 8823 to the IRS stating the owner failed to comply with monitoring review.

Part 710 File Inspection

CTCAC policy will always be the monitoring of file inspections should be performed at the property site. If the office is not large enough to accommodate the Analyst(s) than a vacant unit supplied with a table and chairs will be acceptable.

- A. **Application** – CTCAC will inspect the initial application to verify:
1. Minimum of a 2 year housing history
 2. Applicants listed match the tenants occupying the units
 3. Employment information is the same as found on the Verification of Employment
- B. **Income Calculation (Wages)** –
1. **Regular Income** – CTCAC calculates income three ways and then uses the highest number to determine eligibility. The three ways are Verification of Employment from the employer, YTD calculation, and average number of hours/OT as listed on the pay stubs.*
 2. **Self Employment** – CTCAC looks for the following information to verify self employment income:
 - a. Previous Year's 1040 Tax Return and Schedule C**
 - b. Profit and Loss Statement
 - c. Statements from recurring clients
 3. **Day Labor** – CTCAC defines Day Labor as a tenant who waits in a specified location to do various odd jobs and is paid with cash. Day Labor does not usually have a recurring clientele and can vary dramatically on income or hours. CTCAC recognizes that in certain cases Day Labor is impossible to 3rd Party verify, and as such, will accept a Self Certification of Wages from the tenant. However, this does not excuse the management company from using all due diligence in processing the certification for the tenant. Patterns of excessive use of Self-Certifications in the 20% CTCAC audit sample, may trigger a request for additional information or a larger audit sample.

**If there is conflicting information between the VOE and the pay stubs, prior to moving in the household, then there must be 3rd party written documentation from the employer clarifying the discrepancy. Additionally, more pay stubs may be requested to determine eligibility and demonstrate due diligence.*

*** for self-employed individuals who claim not to file tax returns for their business CTCAC may require management obtain a copy of Form 4506-T – request for verification of tax filing with the IRS, to verify no-filing status.*

- C. **Income Calculation (other forms of Income)** –
1. **Social Security and Supplemental Security Income** – CTCAC prefers 3rd Party Verification directly from the source. However, we will also accept the current year's Social Security Award letter in lieu of 3rd party documentation for Social Security and Supplemental Security income.
 2. **Pensions, Annuity Payments, or any other form of recurring payment** (excluding gifts) – CTCAC will accept a statement/letter from the entity providing the payment in lieu of 3rd party documentation
 3. **Gifts** – CTCAC will accept a signed and dated statement from the person providing the gift indicating the amount and frequency of the gift. An updated statement must be in file at each annual recertification.

- D. **Asset Calculation** – CTCAC will follow the guidelines set forth in HUD Handbook 4350.3 Chapter 5, Rev. 2 to determine the household's Asset Income.
- E. **CTCAC Required Forms** – The analyst will verify the following items are in the file:
1. Tenant Income Certification (TIC)
 2. Tenant Income Certification Questionnaire (TICQ) (June 2001)
 3. Lease
 4. Child Support Verification forms (June 2004)
 5. Under \$5000 Asset verification form or third party documentation of assets if over \$5000
 6. Pay stubs – new move-in (June 2004)
 7. Good Cause Eviction Lease Rider (July 2005)
 8. Financial Aide Verification form (if applicable) (July 2006)
 9. Student Status (if applicable)
 10. Single Parent Full-time Student Self Certification (if applicable) (July 2008)
- F. **Supplemental information** – CTCAC will review any supplemental information, telephone clarifications, and/or self affidavits to determine legitimacy or to aide in the determination of income eligibility of a tenant. If the file still contains discrepancies, TCAC can request additional supplemental information.
- G. **Rent Ledger** – On the day of the inspection, CTCAC will need to see the last 4 months worth of rent ledger history for the units selected in the 20% sample. All charges (excluding HAP assistance), will be verified against the current tax credit maximum rent limits.

Part 720 Physical Inspection

CTCAC will conduct onsite physical inspections of a minimum of 20% of the units on the property based on the Uniform Physical Condition Standards (UPCS) established by HUD and required by the IRS. The following is a breakdown by room:

Kitchen –

- Turn on lights
- Test hot water
- Test garbage disposal unit
- Check all burners on stove
- Inspect oven for stored flammables (paper, plastic, wood)
- Turn on hood light and fan above stove
- Check for foil (this is a fire hazard and must be noted).
- Check for excessive grease build-up
- Check under kitchen sink for leaks
- Look for any signs of pests (cockroaches, ants, etc.).
- Note if there is excessive garbage overflowing in kitchen as this can cause a pest problem.
- Check out ceilings and floors to see if there are any problems.

Bathroom –

- Check lights and exhaust fan
- Flush toilet
- Visual of toilet area to see if there is any possible water leakage.
- Visual of bathtub area to check for possible mold.
- Visual of floor and ceiling for holes, water, or mold problems from unit above, etc.
- Check for towel bars and toilet paper holders.
- Note anything unusual that is causing problems in bathroom.

Bedroom –

- Check light switches
- Check closet doors
- Check ingress/egress to bedroom doors
- Verify window is not blocked above level of window sill
- Check ceilings for leaks
- Check walls for holes
- Check for exposed wiring
- Look for items hanging on fire sprinklers
- Test windows for ease of opening/closing

Water heater / HVAC closet –

- Check for storage of flammables.
- Check to if water heater is gas fired (per CTCAC regulations)
- Verify water heater is strapped or secured for earthquake preparedness (per California law).
- Check for leaks.
- Verify the vents on water heater door are free of debris and that air is able to flow in and out.
- Check for stored items (may pose fire hazard)
- Check for pests (spiders, rodents) and built up debris (leaves)

Smoke detectors –

- Test all smoke detectors to ensure they are working properly.
- If a unit has no operable smoke detector working management must correct the problem before CTCAC leaves property and CTCAC will need to re-inspect.
- Any smoke detector that is chirping and needs a battery replaced is a no pass.
- Any smoke detector that has been disconnected is a no pass.
- Any smoke detector that is not installed correctly is a no pass.
- If the unit has two stories a minimum of one smoke detector downstairs and on upstairs.

Miscellaneous –

- Verify carpeting and flooring is in good condition
- Check for stains on floor or carpet
- Verify front door locks properly.
- Check doors for holes / hinges aligned.
- Verify ingress/egress for all doors (doors should open completely).
- Any furniture completely blocking the sliding glass door leading into patio or balcony is considered a fire hazard and will be noted.
- Verify no windows are blocked
- Verify all overhead light covers are in place

- Verify all units designated as ADA meet all requirements
- Check railings in stairwells
- Check for cracked windows
- Check for missing screens

External Inspection and Common Areas –

- Check for damaged stucco or other external issues
- Check for standing water
- Check to see that all buildings and units are well marked and identified and there is good lighting throughout grounds.
- Look for trip hazards
- Verify ADA requirements are met (parking, ramps, etc.)
- Check Pool Area for maintenance and fence
- Verify tot-lot is safe and in good repair
- Verify laundry rooms are safe and in good repair
- Verify landscaping is maintained
- Verify good condition of roof

Part 730 Results Letters

The CTCAC Analyst performing the inspection will notify the owner of the results of the inspection via letter within **30** days of the inspection. The letter will contain an itemized list of file and/or physical noncompliant issues as well as the date by which the owner must correct the issues noted.

Part 740 Correction period

The results letter will provide a date when the owner’s response to the issues noted is due. This is known as the “correction period”. Extensions beyond the date noted must be made in writing either via letter or e-mail to the analyst who performed the inspection. Extensions are granted at the discretion of the TCAC Program manager only. Additionally, please note that certain issues even if corrected within the Correction Period, will automatically generate an IRS Form 8823.

Part 750 Mixed-Use Properties

Properties with both market rate and tax credit units have additional areas that are monitored in closer detail than properties with 100% LIHTC units. These areas are on a per building basis rather than a property-wide basis. They are:

- A. Next Available Unit Rule (140% rule) – If the income of the occupants of a qualifying unit increases to more than 140% of the applicable income limitation (based on the Set-aside for the property - 40/60 or 20/50), the unit may continue to be counted as a low income unit as long as the unit continues to be rent-restricted and the next unit of comparable or smaller size is occupied by a qualified low-income tenant. Please remember TCAC would like you to track when units exceed the 140% NAU Rule and can request a report evidencing compliance with the NAU Rule.

1. To monitor the Next Available Unit Rule, CTCAC may ask to see a tracking spreadsheet of the units in the building. The spreadsheet should show the following:
 - a. Number of LIHTC units currently in place
 - b. Number of Market units currently in place
 - c. Number of units currently under the NAU rule
 - d. The date the NAU rule went into effect per unit
 - e. The move-in dates for all units, market and LIHTC
 - f. Any marketing used to advertise the next unit as LIHTC.

B. **Applicable Fraction / Eligible Basis** – The low-income housing credit amount is based on certain costs associated with a **building** (eligible basis) and the portion of the **building** (applicable fraction) that low-income household occupy. The ratio of LIHTC units to Market-rate units can be found on the Form B's submitted by the owner to CTCAC prior to receiving the Forms 8609 for the property. CTCAC highly recommends management obtain a copy of the Form B per building from the ownership to maintain the correct Applicable Fraction in the number of required LIHTC units.

1. To monitor the Applicable Fraction/Eligible Basis, CTCAC will compare the ratio of LIHTC units to Market units, by comparing the PSR (Project Status Report), submitted by the owner as part of the pre-inspection documentation requirements, to the Form B's found in the CTCAC File. Additional inquiries may be made on-site if the ratio's are found to be incorrect.
2. CTCAC recommends consulting with the owner's Tax Attorney or CPA prior to moving the Exempt Manager's unit. This applies to moves within the same building and to another building, as it may affect the Applicable Fraction of the buildings.